

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
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R 072047Z NOV 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 2977
INFO ALL EC CAPITALS
AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BERN
AMEMBASSY CANBERRA
AMCONSUL EDINBURGH
AMEMBASSY HELSINKI
AMEMBASSY LISBON
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USEEC

PARIS ALSO FOR OECD

E.O. 11652: N/A
TAGS: EEC, ETRD, OECD, EGEN, EIND
SUBJECT: EC PLANS FOR SHIPBUILDING SECTOR
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REF: BRUSSELS 15375

1. SUMMARY: THE CRISIS WHICH HAS RAVAGED THE EUROPEAN
SHIPBUILDING INDUSTRY CONTINUES UNABATED, MAKING SIGNIF-
ICANT LOSS OF JOBS LIKELY OVER THE NEXT FEW YEARS. IN
ADDITION, SEVERE COMPETITION FROM JAPANESE AND LDC PRO-

DUCERS THREATENS TO FUNDAMENTALLY CHANGE THE COMMUNITY'S SHARE OF WORLD PRODUCTION. THE COMMISSION WILL SEEK TO RESTRUCTURE ITS INDUSTRY WHILE WORKING TOWARDS A BALANCED REDUCTION OF WORLDWIDE CAPACITY. IT WILL PROPOSE A MULTI-FACETED ACTION PROGRAM INCLUDING FINANCIAL ASSISTANCE, COORDINATION OF NATIONAL AIDS, AND INVESTMENT INCENTIVES FOR MODERNIZATION, BUT THIS EFFORT AT A BROAD SECTORAL POLICY WILL ENCOUNTER STRONG OPPOSITION AT SEVERAL LEVELS WITHIN THE COMMUNITY. END SUMMARY.

2. ACCORDING TO COMMISSION ESTIMATES WORLD SHIP CONSTRUCTION, WHICH WAS AT A LEVEL OF 33 MILLION TONS IN 1975, WILL FALL TO BETWEEN 11 AND 13 MILLION TONS AT BEST BY 1980. OF THIS EC SHIPBUILDERS ARE LIKELY TO PRODUCE 2.4 MILLION TONS COMPARED WITH 4.4 MILLION TONS IN 1975. EC COMMISSIONER DAVIGNON ESTIMATES THE WORST IS YET TO COME FOR EC SHIPBUILDING AND THAT IT WILL LIKELY BE IN 1978 WHEN THE LAST SHIPS ORDERED BEFORE THE WORLD SLUMP BEGAN WILL BE FINISHED. ONE THIRD OF THE EC'S 180,000 SHIPYARD WORKERS MAY LOSE THEIR JOBS BY 1984 AND ANOTHER 20,000 SHOULD RETIRE OR VOLUNTARILY LEAVE THE INDUSTRY. THERE WOULD BE PROPORTIONATE EFFECTS ON HUNDREDS OF THOUSANDS OF JOBS IN RELATED UPSTREAM ACTIVITIES SUCH AS STEEL. THESE FORECASTS ARE BASED ON RATHER OPTIMISTIC ASSUMPTIONS OF AN OVERALL EC GROWTH RATE OF FOUR PERCENT AND A 50-50 DIVISION OF SHIP ORDERS RECEIVED BY DEVELOPED LIMITED OFFICIAL USE

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COUNTRIES BETWEEN WESTERN EUROPE AND JAPAN.

3. IN THE VIEW OF THE COMMISSION, THE MARKED REDUCTION OF DEMAND IN EUROPEAN SHIPYARDS DUE TO A LONG-LASTING CONTRACTION OF THE WORLD MARKET IS AGGRAVATED BY AN INEQUITABLY HIGH JAPANESE SHARE OF CONSTRUCTION ORDERS, WHICH BENEFIT IN PARTICULAR FROM:

-- THEIR PRICE COMPETITIVITY, DERIVING FROM ECONOMIES OF SCALE, A CONSIDERABLE DEGREE OF VERTICAL AND HORIZONTAL INTEGRATION, THE MODERN EQUIPMENT AND PRODUCTION TECHNIQUES, HIGH PRODUCTIVITY, AND THE RELATIVELY LOW COST OF PRODUCTION FACTORS;

-- AN EFFECTIVE MARKETING STRATEGY; AND

-- GOVERNMENTAL POLICIES, INCLUDING EXPORT CREDIT FACILITIES.

4. THE COMMISSION'S STRATEGY IS TO ENCOURAGE A CONCERTED RESTRUCTURING PROGRAM AIMED AT RESTORING THE COMPETITIVITY OF COMMUNITY SHIPBUILDING AND AT THE SAME TIME TO WORK

TOWARDS A BALANCED REDUCTION OF THE PRODUCTION CAPACITY
OF THE INDUSTRY WORLDWIDE. ACCORDINGLY, THE COMMISSION
HAS WORKED TOGETHER WITH MEMBER STATES IN THE INTER-
NATIONAL ARENA -- NOTABLY IN THE CONTEXT OF THE OECD--
IN ORDER TO OBTAIN AN EQUITABLE SHARING OF THE BURDEN OF
THE CRISIS. A COMMISSION INITIATIVE PROPOSING AN ARRANGE-
MENT FOR BALANCING THE AWARD OF CONTRACTS BETWEEN
EUROPEAN AND JAPANESE YARDS WAS NOT TAKEN UP BY JAPAN --
BUT THE LATTER REACTED BY TAKING CERTAIN UNILATERAL
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MEASURES ON PRICES AND EXPORT REDUCTIONS IN ORDER TO PRE-
VENT EXCESSIVE ORDER INTAKE BY ITS YARDS.

5. IN THE EC VIEW, THE COMMUNITY SHIPBUILDING SITUATION
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HAS IMPROVED SOMEWHAT SINCE THE SPRING, ALTHOUGH THE COM-
MISSION IS NOT PREPARED TO ADMIT THIS PUBLICLY. THE MAIN
POSITIVE DEVELOPMENT HAS BEEN A SHIFT IN THE DISTRIBUTION
OF NEW ORDERS AWAY FROM JAPAN. WHILE JAPAN WAS RECEIVING

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90 OF NEW ORDERS IN LATE 1976 AND 70 PERCENT LAST SPRING, THE JAPANESE SHARE OF NEW ORDERS IS CLOSER TO 50 NOW AND WILL LIKELY CONTINUE TO DECLINE TOWARDS THE 40 LEVEL. THE PRIMARY REASON FOR THIS DECLINE IS THE COMBINATION OF YEN REVALUATION (7-10), PRICE INCREASE (5), AND INFLATION (8), TOGETHER WITH SUBSIDY AND AID MEASURES UNDERTAKEN BY EC PRODUCERS. NEVERTHELESS, THERE IS STILL A 20 PERCENT LIMITED OFFICIAL USE

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JAPANESE PRICE ADVANTAGE IN SOME BIDS. THE LONG-TERM EC GOAL IS TO GET JAPANESE TO FORGET ABOUT THEIR GOAL OF A 50 SHARE OF THE WORLD MARKET BY STRESSING FACTS THAT (1) JAPANESE SHARE IN COMPENSATED TONS IS ALREADY WELL LESS THAN 50 AND PROBABLY CLOSER TO 40, (2) GROWTH OF EXPORT-ORIENTED LDC SHIPBUILDING INDUSTRIES WILL MAKE SUCH DISTRIBUTION IMPOSSIBLE, SINCE THEY ARE INCREASING PRODUCTION AT RATE OF ONE MILLION D.W.T. PER YEAR (WITH PRESENT CAPACITY AT 7 MILLION D.W.T.) AND MARKET IN 1980 WILL BE NO GREATER THAN 13 MILLION TONS, AND (3) EC MEMBER STATES WOULD NEVER PERMIT SUCH A DISTRIBUTION BUT INTRODUCE NEW AID SCHEMES TO PREVENT IT.

6. DAVIGNON, THE EC COMMISSIONER FOR INDUSTRIAL AFFAIRS, HAS ATTACHED A HIGH PRIORITY TO ACHIEVING AN EC POLICY TO DEAL WITH PROBLEMS IN THE SHIPBUILDING INDUSTRY. DAVIGNON'S EMPHASIS IS MUCH IN LINE WITH HIS SHIFT IN APPROACH FROM A HORIZONTAL INDUSTRIAL POLICY (E.G. STANDARDS AND HARMONIZATION OF LEGISLATION), WHICH WAS PRACTICED UNDER PREVIOUS COMMISSIONERS, TO A SECTORAL APPROACH CONCENTRATING ESPECIALLY ON STEEL, TEXTILES, AND SHIPBUILDING. THE DAVIGNON PLAN FOR STEEL IS A PRIMARY EXAMPLE OF THIS NEW DIRECTION. THE CHIEF PROBLEM WITH THIS EFFORT FOR SHIPBUILDING IS THAT THE COMMISSION LACKS THE SAME RESOURCES IN TERMS OF MONEY AND TREATY AUTHORITY IN THE SHIPBUILDING INDUSTRY THAT IT POSSESSES UNDER THE PARIS TREATY FOR THE EUROPEAN COAL AND STEEL COMMUNITY. LIMITED OFFICIAL USE

7. UNDER DAVIGNON'S DIRECTION, THE DIRECTORATE GENERAL FOR INDUSTRIAL AFFAIRS IS PREPARING A PROPOSAL FOR AN ACTION PROGRAM FOR THE SHIPBUILDING SECTOR WHICH WILL LIKELY INCLUDE THE FOLLOWING ELEMENTS:
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-- CONDITIONS FOR WORLD-WIDE COMPETITION;

-- CREATION OF A JOINT COMMITTEE FROM THE COMMISSION AND MEMBER STATES TO SET PRODUCTION CEILINGS AND REDUCE NATIONAL CAPACITY;

-- FINANCIAL ASSISTANCE THROUGH INTEREST SUBSIDIES ON LOANS AND OUTRIGHT ADJUSTMENT ASSISTANCE GRANTS FOR RETRAINING WORKERS;

-- ENCOURAGING MERGERS AND MODERNIZATION OPERATIONS;

-- COORDINATION OF NATIONAL AID SCHEMES TO MEET CRISIS CONDITIONS AND AVOID DISTORTION OF INTRA-COMMUNITY COMPETITION (REFTEL);

-- COORDINATION OF COMMUNITY INSTRUMENTS SUCH AS THE REGIONAL FUND AND SOCIAL FUND TO ENSURE THAT SHIPBUILDING REGIONS RECEIVE HIGH PRIORITY FOR FUNDS;

-- REDUCTION IN EMPLOYMENT OF UP TO 50 OF LABOR FORCE;

-- CONCENTRATION ON MORE SOPHISTICATED SHIPS, AN AREA WHERE EC HAS A RELATIVE ADVANTAGE; AND,

-- CONDITIONS FOR THE USE OF CARGO VESSELS, AN AREA WHICH IS DIFFICULT TO DISASSOCIATE FROM THE PROBLEM OF SHIPBUILDING.

8. THESE PROPOSALS, SCHEDULED TO BE PRESENTED TO THE COUNCIL THIS MONTH, WILL PROBABLY FACE SEVERE PRACTICAL AND BUREAUCRATIC PROBLEMS. FIRST OF ALL, OPPOSITION CAN BE EXPECTED WITHIN THE COMMISSION AND FROM MEMBER STATES TO THE INTERVENTIONIST EFFORTS OF DAVIGNON AND TO HIS INTENTION TO RAID THE BUDGET. EVEN DIS-REGARDING BUREAUCRATIC JEALOUSIES, COORDINATION OF NATIONAL AID SCHEMES, NOT TO MENTION REGIONAL AND SOCIAL POLICIES, WILL BE A MAJOR UNDERTAKING THAT ALREADY HAS CONSUMED MUCH COMMISSION ENERGY WITHOUT NOTICEABLE RESULTS. FINALLY, AS WITH THE STEEL INDUSTRY, THE

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CAPACITY REDUCTION NECESSARY IN THE INDUSTRY IS MADE DOUBLY DIFFICULT BY THE GEOGRAPHIC LOCATION OF MOST INDUSTRY FACILITIES IN ECONOMICALLY DEPRESSED AREAS WITH LITTLE PROSPECT FOR ALTERNATIVE EMPLOYMENT, EITHER IN EXISTING ENTERPRISES OR THROUGH CREATION OF NEW JOBS.

9. THE EC COMMISSION HAS, HOWEVER, BEEN ACTIVE ALREADY LIMITED OFFICIAL USE

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ON ONE PART OF THIS PROGRAM-- STATE AIDS. THE COMMISSION HAS THE POWER TO REJECT AID SCHEMES WHICH IT DEEMS INCOMPATIBLE WITH THE ROME TREATY AND THIS POWER HAS BEEN THE CORE OF EC ACTIVITIES ON BEHALF OF VARIOUS INDUSTRIAL SECTORS. RECENTLY THE COMMISSION PROPOSED A NEW DIRECTIVE (REF) WHICH WOULD COORDINATE MEMBER STATE AIDS TO THEIR RESPECTIVE INDUSTRIES TO OFFSET SOME OF THE WORST EFFECTS OF THE CRISIS AND AVOID INTRA-EC COMPETITIVE DISTORTIONS. THE COMPETITION DIRECTORATE GENERAL OF THE COMMISSION HAS FOUND IT DIFFICULT RECENTLY TO

RESIST POLITICAL PRESSURES TO ALLOW QUESTIONABLE AIDS. IN THE PAST MONTHS THE COMMISSION HAS CONDITIONALLY APPROVED SUBSIDY SCHEMES FOR THE DUTCH AND BRITISH INDUSTRIES AND IS PRESENTLY EXAMINING A FRENCH AID PROPOSAL. COMMISSION STAFF REPORTS GENERALLY CRITICIZED THESE PROPOSALS BUT THE FINAL DECISION TO APPROVE WAS MADE (IN THE CASE OF THE FIRST TWO SCHEMES) BY THE COMMISSIONERS ON GROUNDS THAT NON-EC PRODUCERS WERE USING SUCH AIDS AND EC PRODUCERS NEEDED SIMILAR COMPETITIVE ADVANTAGES. IN THE CASE OF THE BRITISH SCHEME, COMMISSION STAFFERS WHO VIGOROUSLY OPPOSED APPROVAL CLAIM THAT IT WAS APPROVED BECAUSE IT WOULD BENEFIT SCOTTISH SHIPYARDS AND REJECTION WOULD LEAVE THE LABOR PARTY OPEN TO ATTACK FROM THE SCOTTISH NATIONAL PARTY. THE COMMISSION WILL PROBABLY EXERT MAXIMUM PRESSURE TO BAN ANY AID PROJECTS THAT WOULD SERIOUSLY INTERFERE WITH COMPETITION BETWEEN MEMBER STATES BUT COMMISSION OFFICIALS ADMIT PRIVATELY THAT AS LONG AS THE CRISIS CONTINUES, THEY WILL PROBABLY NOT INSIST ON STRICT ADHERENCE TO TREATY RULES ON STATE AIDS. HINTON

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Message Attributes

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